REGIONAL TRANSIT AUTHORITY
SINGLE AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2013

REGIONAL TRANSIT AUTHORITY

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners of
Regional Transit Authority
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Regional Transit Authority (the Authority), as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 10, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any *deficiencies in internal control* that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gurtner Zuniga Abney, LLC

June 10, 2014
New Orleans, Louisiana

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133

To the Board of Commissioners of
Regional Transit Authority
New Orleans, Louisiana

Compliance

We have audited the compliance of the Regional Transit Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2013. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2013.

Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above; however, material weaknesses may exist that have not been identified.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Gurtner Zuniga Abney, LLC

June 10, 2014
New Orleans, Louisiana

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Federal Grantor/Program Title	CFDA Number	Expenditures
UNITED STATES OF AMERICA DEPARTMENT OF TRANSPORTATION		
Direct Awards		
Federal Transit Administration -		
Federal Transit Cluster		
Capital Investment Grants - ARRA funding	20.500	$ 6,019,196
Formula Grants	20.507	8,293,045
State of Good Repair Grants	20.525	3,031,210
TOTAL FEDERAL TRANSIT CLUSTER		17,343,451
Transit Service Program Cluster		
Job Access Reverse Commute	20.516	775,866
New Freedom Program	20.521	84,803
TOTAL TRANSIT SERVICE PROGRAM CLUSTER		860,669
Public Transportation Research	20.514	213,871
Surface Transportation - ARRA discretionary	20.932	886,451
UNITED STATES OF AMERICA DEPARTMENT OF HOMELAND SECURITY		
Federal Emergency Management Agency, passed through the State of Louisiana -		
Disaster Assistance Grants	97.036	1,988,714
TOTAL EXPENDITURES OF FEDERAL AWARDS		**$ 21,293,156**

See accompanying notes to Schedule of Expenditures of Federal Awards.

REGIONAL TRANSIT AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE A – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of the Regional Transit Authority (RTA). The RTA's reporting entity is defined in Note A to the RTA's financial statements for the year ended December 31, 2013. All federal awards received from federal agencies are included on the schedule.

NOTE B – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note A to the RTA's financial statements for the year ended December 31, 2013.

NOTE C – LOANS PAYABLE TO FEDERAL AGENCY

RTA received Special Community Disaster Loans (CDL) from the federal government of $24,712,417 and $22,496,607 in February 2008. In 2007, Congress authorized FEMA to forgive all or part of the Special CDL's, and RTA applied for loan forgiveness. On November 21, 2011, the CDL was partially forgiven by FEMA including $38,074,468 as of December 31, 2011, leaving a balance of $9,134,556. On January 27, 2012, RTA made a request of the State of Louisiana to forgive the remainder of the Community Disaster Loan Payable. On July 31, 2012, the CDL was partially forgiven by FEMA including $8,237,800 as of December 31, 2012, leaving a balance of $896,756. Interest expense accrued in 2012 was $128,243. On July 10, 2013, RTA made a request of the State of Louisiana to forgive the remainder of the CDL. On August 9, 2013 the CDL was fully forgiven by FEMA including principle of $896,756 and interest of $139,143. As of December 31, 2013 no amounts were outstanding related to the CDL.

(1) Summary of Auditors' Results

(a) The type of report issued on the basic financial statements: Unmodified opinion

(b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: No;
Material weaknesses: No;

(c) Noncompliance which is material to the financial statements: No;

(d) Significant deficiencies in internal control over major programs: No;
Material weaknesses: No;

(e) The type of report issued on compliance for major programs: Unmodified opinion;

(f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: No;

(g) Major programs:

Federal Transit Administration – Federal Transit Cluster:	
Capital Investment Grants	20.500
Formula Grants	20.507
State of Good Repair Grants	20.525
Federal Transit Administration – Transit Service Program Cluster:	
Job Access Reverse Commute	20.516
Federal Transit Administration:	
Surface Transportation - ARRA discretionary	20.932
United States Department of Homeland Security, Federal Emergency Management Agency, passed through the State of Louisiana	
Disaster Assistance Grants	97.036

(h) Dollar threshold used to distinguish between Type A and Type B programs: $638,795

(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: No

(2) The following findings relating to the financial statements reported in accordance with *Government Auditing Standards*:

No findings noted.

(1) Findings relating to the financial statements reported in accordance with *Government Auditing Standards*:

2012-1 Calculation of Interest Accretion on 1991 Capital Appreciation Bonds

Criteria: Pursuant to generally accepted accounting principles (GAAP), capital appreciation bonds (CAB) do not pay interest on a recurring set periodic basis, but rather the interest accretes in value from the date of issuance to the date of maturity (and is payable upon maturity). To the extent that that are principal redemptions on bonds, the bond interest accretion schedules should be adjusted to reduce the amount of accreted interest in the calculations.

Condition: During the performance of our audit procedures, we noted the calculations that supports the journal entries for accrued/accreted bond interest with respect to the 1991 Series Sales Tax Revenue Bonds did not take into account the principal redemptions that occurred in years 2009 – 2012. This resulted in an error which overstated interest expense and accrued interest and understated net position (formerly net assets) in the financial statements each year beginning in 2009 through 2012 as follows:

Year	Overstatement of Interest Expense	Cumulative Overstatement of Accrued Interest at 12/31	Cumulative Understatement of Net Position at 12/31
2009	$1,250,978	$1,250,978	$1,250,978
2010	$1,293,465	$2,544,443	$2,544,443
2011	$1,444,318	$3,988,761	$3,988,761
2012	$346,647	$4,335,408	$4,335,408

The error was corrected in the 2012 audited financial statement presentation as a prior period error.

Context: This error was found through the performance of our audit procedures relating to the bond interest accretion schedules.

Effect: The effect on the financial statements resulted in the overstatement of interest expense, accrued bond interest and understatement of net position as detailed above for the respective years.

Cause: Lack of management knowledge concerning the proper accounting for accrued/accreted interest with respect to 1991 Sales Tax Revenue Bond has led to misstatement of amounts in the financial reporting of interest expense, accrued interest payable, and net assets for the respective years noted above.

Recommendation: Management should ensure that all payments of principal on Capital Appreciation Bonds are appropriately included in the calculation of accreted interest.

Management Response and Corrective Action Resolved: Management was made aware of the deficiency in the control during the course of the audit. Management agrees that interest expense and related accrued interest related to the 1991 Sales Tax Revenue Bond was inaccurately recorded during the year and in previous years. Management has updated the supporting interest expense and related accrued/accreted interest expense schedules to include all principal redemption payments.

2012-2 Reconciliation of Capital Assets from the Subsidiary Ledger to the General Ledger

Criteria: Internal control procedures over general ledger account reconciliations (specifically property, buildings and equipment) are required in order to reduce the likelihood that a material misstatement will not be prevented or detected in a timely basis.

Condition: The property, building, and equipment subsidiary ledger was not timely reconciled to the general ledger. We noted an unreconciled balance of $1.6M at December 31, 2012 between the subsidiary ledger balance ($61.9M) and the general ledger balance ($63.5M) which dated back 3 years to 2010. Management was able to reconcile this difference during the audit to $395K (which is still an unreconciled difference). For the reconciled items, management identified assets that were included in the subsidiary ledger as "inactive" several years ago as they were not yet placed in service, and therefore were not included in the totals per the subsidiary ledger balance; however, these assets were appropriately included in the general ledger capital asset totals. These assets were ultimately placed in service but the inactive status was not removed which resulted in an understatement of depreciation expense, cumulatively of $485K ($97K in 2010 and $194K in each of 2011 and 2012).

Context: During the performance of our audit procedures of property, building and equipment, we noted the subsidiary ledger did not reconcile to the general ledger by $1.6M which was an unexplained difference dating back to 2010.

Effect: The condition results in the understatement of depreciation expense and overstatement of property, building and equipment, net of accumulated depreciation and net position.

Cause: The cause appears to be a deficiency in internal control over general ledger reconciliation of the property, building and equipment subsidiary ledger systems.

Recommendation: Management should timely reconcile property, building and equipment subsidiary ledgers to the general ledger on a monthly basis. Independent reviews should be performed of these reconciliations on a timely basis and any significant variances investigated and resolved in a timely manner.

Management Response and Corrective Action Resolved: Management was made aware of the control weakness during the course of the audit and investigated and reconciled $1.2M of the $1.6M difference. Management agrees that the property, building and equipment subsidiary ledgers were not timely reconciled in current and previous years. Management indicated they will regularly reconcile property, building, and equipment subsidiary ledgers and an independent review will be performed of these reconciliations in a timely manner.